

Message Text

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ACTION ARA-10

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SUBJECT: INTEREST IN ALUMINUM DEVELOPMENT

1. SUMMARY. MARTIN MARIETTA ALUMINUM COMPANY IS EXPLORING THE POSSIBILITY OF DEVELOPING AN ALUMINUM SMELTER IN COSTA RICA. THE GOVERNMENT'S ATTITUDE APPEARS FAVORABLE BUT THE FATE OF THE PROJECT WILL PROBABLY DEPEND ON WHETHER FAVORABLE FINANCING CAN BE ARRANGED THAT WOULD PERMIT PRODUCTION OF POWER FROM THE BORUCA DAM SITE AT A COMPETITIVE RATE. END SUMMARY.

2. THE PRESIDENT OF MARTIN MARIETTA ALUMINUM COMPANY, FRANK X. BRADLEY, AND THE COMPANY'S VICE PRESIDENT FOR OPERATIONS, BERNARD GAMSON, VISITED COSTA RICA MARCH 28 THROUGH 30 TO CONSIDER THE POSSIBILITY OF ESTABLISHING AN ALUMINUM SMELTER IN THE COUNTRY. THEY WERE SHOWN THE SITE OF THE PROPOSED ARENAL DAM AS WELL AS POTENTIAL SITES FOR A SMELTER AND SHIPPING FACILITIES BY TOP OFFICIALS OF THE COSTA RICAN ELECTRICITY INSTITUTE (ICE). THEY HAD DETAILED DISCUSSIONS WITH THE ICE OFFICIALS AND ALSO MET WITH ECONOMY MINISTER JORGE SANCHEZ, AND HIGH PRESIDENTIAL AIDE, RODOLFO QUIROZ. THEY MET WITH THE AMBASSADOR AND ATTENDED A DINNER GIVEN BY HIM IN

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THEIR HONOR.

3. THE MARTIN MARIETTA OFFICIALS TOLD THE AMBASSADOR AT THE END OF THEIR VISIT THAT THEY ARE VERY INTERESTED IN THE POSSIBILITY OF BUILDING AN ALUMINUM SMELTER IN COSTA RICA IF THE POWER COSTS ARE SUCH AS TO MAKE THE PROJECT ECONOMICALLY ATTRACTIVE. MUCH WOULD DEPEND ON FINANCING TERMS. ACCORDING TO ICE, THE WORLD BANK WOULD BE PREPARED TO GIVE A LOAN TO CONSTRUCT THE BORUCA DAM BUT ONLY TO THE EXTENT OF ABOUT ONE-THIRD OF THE TOTAL COST. ICE EXPECTS THAT ANOTHER THIRD OF THE FINANCING WOULD COME FROM SUPPLIER CREDITS, AND THE REMAINING THIRD FROM OTHER INTERNATIONAL SOURCES, SUCH AS COMMERCIAL BANKS. BASED ON THIS KIND OF A FINANCING PACKAGE, ICE BELIEVES THAT POWER COULD BE PRODUCED AT THE ARENAL SITE AT A LOWER COST THAN WOULD BE AVAILABLE FOR A NEW SMELTER IN THE U.S., EVEN THOUGH THE COST WOULD BE MUCH HIGHER THAN THAT PAID BY OLD ALUMINUM PLANTS IN THE U.S. THAT HAVE CHEAP HYDRO POWER FINANCED BY LONG-TERM VERY LOW INTEREST RATE U.S. GOVERNMENT PROGRAMS. MARTIN MARIETTA'S PRELIMINARY THINKING IS THAT IT WOULD WANT TO LOCATE A SMELTER ON THE CARIBBEAN COAST, PREFERABLY NEAR PUERTO LIMON WHERE PORT FACILITIES AND A LABOR FORCE ARE AVAILABLE. THEY WOULD BRING ALUMINA FROM THEIR PLANT IN THE U.S. VIRGIN ISLANDS, WHICH PROCESSES BAUXITE FROM GUINEA. A SITE ON THE CARIBBEAN COAST OF COSTA RICA WOULD ALSO BE CONVENIENT TO MARTIN MARIETTA'S MAJOR ALUMINUM MARKETS IN THE EASTERN HALF OF THE U.S., WHICH ARE NOW SERVED BY SMELTERS LOCATED IN THE PACIFIC NORTHWEST. MARTIN MARIETTA OFFICIALS DID NOT APPEAR TO BE VERY INTERESTED IN DEVELOPING COSTA RICA'S LOW-GRADE BAUXITE DEPOSITS AT THAT TIME.

4. COSTA RICAN GOVERNMENT OFFICIALS ARE BELIEVED TO BE INTERESTED IN MAKING A DEAL FOR THE DEVELOPMENT OF AN ALUMINUM INDUSTRY IN THE COUNTRY, AND ICE IS EXTREMELY INTERESTED. THE BAUXITE AND ALUMINA DEVELOPMENT CONTRACTS, WHICH ALCOA HAS NOTIFIED THE GOVERNMENT IT WILL GIVE UP, EXPIRE THE 12TH OF MAY. ECONOMY MINISTER LIMITED OFFICIAL USE

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SANCHEZ ANNOUNCED ON MARCH 30 "IT IS THE POLICY OF THE EXECUTIVE BRANCH TO CONTINUE ALL NECESSARY EFFORTS TO ACHIEVE IN THE SHORTEST TIME A RATIONAL EXPLOITATION OF ALUMINUM IN OUR TERRITORY THAT WILL RENDER THE MAXIMUM ECONOMIC AND SOCIAL BENEFITS."

5. IF FINANCING IS AVAILABLE ON FAVORABLE TERMS AND

IF STUDIES INDICATE THAT POWER CAN BE PRODUCED AT A PRICE THAT WOULD BE ATTRACTIVE TO MARTIN MARIETTA, THERE WOULD SEEM TO BE A GOOD CHANCE OF THE PROJECT GOING FORWARD IN THE NEAR FUTURE. A POSSIBLE STUMBLING BLOCK, HOWEVER, MIGHT BE THE BAUXITE SITUATION. THE GOVERNMENT MIGHT WISH TO HOLD OUT FOR AN OFFER THAT WOULD INCLUDE DEVELOPMENT OF COSTA RICA'S BAUXITE DEPOSITS. SANCHEZ ANNOUNCED MARCH 30 THAT UPON EXPIRATION OF THE ALCOA CONTRACTS, THE GOVERNMENT INTENDS TO EXERCISE THE OPTION PROVIDED UNDER THOSE CONTRACTS TO ACQUIRE THE LAND PURCHASED BY ALCOA IN THE BAUXITE AREA.

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